

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF PRAIRIE)
FACILITIES INC., D/B/A PRAIRIE)
VILLAGE SEWER SYSTEM FOR AN) CASE NO. 9136
ADJUSTMENT OF RATES PURSUANT TO)
THE ALTERNATIVE PROCEDURE FOR)
SMALL UTILITIES)

O R D E R

On September 10, 1984, Prairie Facilities, Inc., d/b/a Prairie Village Sewer System ("Prairie") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Prairie requested a rate which would produce an annual increase of \$10,226 to its present gross revenues. In this Order, the Commission has allowed a rate to produce an increase of \$5,730.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1983, has been accepted as the test period.

REVENUES AND EXPENSES

Prairie showed a net loss on its books for the test period of \$7,605. Prairie proposed several pro forma adjustments to its test period operating revenues and expenses to more accurately reflect current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Water Expense

During the test period, Prairie incurred water expense of \$1,752. The Louisville Water Company ("LWC") announced in the month of December 1984 that rates for water service would be increased by 7.2 percent effective January 1, 1985. In response to the Commission's request for information, Prairie furnished on December 10, 1984, copies of its test period water bills. The Commission has recomputed the water expense of Prairie by applying the revised water rates of the LWC effective January 1, 1985, to test period water usage which indicated adjusted water expense of \$1,977. Therefore, the Commission finds it appropriate to make a pro forma adjustment to water expense of \$225.

Purchased Power Expense

Prairie proposed an adjusted purchased power expense for the test period of \$9,935. An analysis of Prairie's purchased power expense for the test period revealed that \$725 had been

included which was applicable to a prior period. In its response to the Commission's request for information received on December 10, 1984, Prairie concurred that the \$725 should be deleted from test period electric expense. In addition Prairie proposed an adjustment to increase purchased power expense by \$693 to reflect higher rates from its supplier. In order to assess the accuracy of the reported level of expense, as well as to determine the adjusted purchased power expense, the Commission requested and Prairie supplied copies of its test period electric bills from the Louisville Gas and Electric Company ("LG&E"). In calculating the adjusted purchased power expense, the Commission has applied the current rates of LG&E presently in effect to the actual KWH used by Prairie during the test period, and has found it appropriate to make an additional adjustment of \$166. This results in adjusted purchased power expense of \$9,376, a reduction of \$559.

Routine Maintenance Service Fee

Prairie reported Routine Maintenance Service Fees of \$4,200 paid during the test period to Andriot-Davidson Service Company, Inc. ("Andriot-Davidson"). In Prairie's previous rate Order, Case No. 8113, dated August 5, 1981, the Commission allowed \$3,264 to be included in operating expenses for rate-making purposes for routine maintenance. In response to the Commission's request for additional information dated September 27, 1984, Prairie furnished the Commission a copy of the contract negotiated with Andriot-Davidson for services rendered during the test period at a monthly fee of \$350 per month, or an increase of \$78 per month over the amount allowed in the previous rate case. In considering this

adjustment, the Commission determined that transactions between Prairie and Andriot-Davidson, because of their mutual ownership, by Mr. Carroll Cogan, are not at arms-length and, therefore, the burden of proof is on Prairie to demonstrate that the increase of \$78 per month paid to Andriot-Davidson for routine maintenance service is fair, just and reasonable. In Order for the Commission to determine the reasonableness of the increased maintenance fee, the Commission requested detailed information regarding the service provided, the basis of the monthly fee, and comparative data for other plants served by Andriot-Davidson. The response to this request did not adequately identify the increased level of services provided to justify the increase above that level previously allowed.

Therefore, it is the Commission's opinion that Prairie has not met its burden of proof on this issue and the adjustment from \$272 to \$350 per month should not be allowed for rate-making purposes in this case. Thus, the Commission has made an adjustment to reduce the reported test year expense of \$4,200 by \$936 which reflects a routine maintenance service fee of \$3,264 annually. In making this adjustment, the Commission recognizes that this case was an ARF proceeding in which a hearing was not held. Therefore, Prairie is hereby apprised that the Commission will consider a motion for a formal hearing on this matter should Prairie indicate that it intends to submit persuasive proof in support of its test year expense for routine maintenance service.

Maintenance of Treatment and Disposal Plant

Prairie's recorded expense for the maintenance of its treatment and disposal system during the test year was \$4,447. An analysis of the individual invoices showed that during the test period Prairie made the following plant additions which were inappropriately expensed in the Commission's opinion since these items would benefit more than one economic period:

<u>Invoice Number</u>	<u>Date</u>	<u>Vendor</u>	<u>Item</u>	<u>Amount</u>
1018-14	10/18/83	Andriot-Davidson	replace chain flights & rails	\$3,082
1024-18	10/24/83	Andriot-Davidson	new 24-hour time clock & HOA switch	222
1231-33	12/31/83	Andriot-Davidson	diffusers in 4 air drops	482
Total				<u>\$3,786</u>

Therefore, test period expenses related to the maintenance of the treatment and disposal system have been reduced by \$3,786. Depreciation expense on the above items will be discussed later in this Order.

Collection Expense

The collection expense is directly related to the amount of revenue that Prairie collects via the formula used by the LWC to calculate the collection charge.¹ Therefore, the Commission has modified this calculation to include the increased rate allowed herein. The Commission is also using the most recent collection

¹ $\$1.80 \times \frac{\text{Sewer Charge}}{\text{Water Charge} + \text{Sewer Charge}} \times \text{No. of Customers} \times 6.$

fee charged by the LWC effective May 1, 1984, which results in an annual collection expense of \$1,579, an increase of \$289.

Insurance Expense

Prairie incurred insurance expense for the test period of \$450. At the Commission's request, Prairie provided copies of its test year insurance invoices for examination.² An invoice of F.O. Mershon, Jr. & Associates shows a pro-rata allocation of \$110 to Prairie of a \$4,620 premium for a life insurance policy on Mr. Carroll Cogan. It has been established by means of a response³ of Prairie to the Commission that the named beneficiary in the policy is the estate of Carroll F. Cogan. The Commission is of the opinion that the pro-rata portion of the life insurance premium is properly considered a stockholder expense, and it has reduced test period insurance expense by \$110.

Transportation Expense

Included within Prairie's test-year operation and maintenance expenses are transportation charges in the amount of \$105. In support of this amount, Prairie provided an undated invoice from Carroll Cogan Companies, Inc., ("CCC") for \$227.50⁴ which differs from the recorded amount on the books of Prairie. The documentation on the invoice shows five plant inspection trips, one trip to the Jefferson County Health Department and one trip to Frankfort, Kentucky, at \$35 per trip.

² Response dated October 24, 1984, Item d.

³ Response dated December 10, 1984, Item No. 4.

⁴ Response dated December 10, 1984, Item No. 5.

Because CCC and Prairie are mutually-owned companies, it is the Commission's opinion that the transaction for car rental between CCC and Prairie is a less-than-arms-length transaction. Therefore, the burden of proof is on Prairie to establish justification and a sound basis for the expense. Moreover, reasonable expenses have been allowed in this case for outside service companies to maintain the plant on a routine and non-routine basis. Substantially, all transportation to and from Prairie for routine maintenance, sludge hauling and non-routine maintenance is provided for either within a monthly fee or billed by vendors on a per-mile basis. No basis as to the necessity or purpose of the additional travel by Mr. Cogan has been provided and therefore the expense should be disallowed.

Furthermore, it is the Commission's opinion that the cost of travel by Mr. Cogan for trips to the Prairie plant site is included as a part of the monthly fee paid to Andriot-Davidson for routine maintenance. Mr. Cogan is an employee of Andriot-Davidson and visits by him to the plant site are properly construed as travel by him in his capacity as a representative of Andriot-Davidson providing routine maintenance. And, as the contract for routine maintenance between Prairie and Andriot-Davidson makes no provision for additional payments for travel, the charges for transportation are inappropriate.

It is the Commission's policy to allow managers of sewer utilities of the size of Prairie annual compensation of \$1,800, including travel. Therefore, it is the Commission's finding that Prairie has not met its burden of proof on this issue and the

Commission has, therefore, eliminated reported test-year transportation expense of \$105 from operating expenses for rate-making purposes.

Depreciation Expense

As discussed earlier, the Commission, in its disallowance of capital items of \$3,786 included in the cost of maintaining the treatment and disposal plant, has allowed a pro forma depreciation expense adjustment of \$1,262 computed on the basis of a 3-year service life of the property which is more appropriately included in Account No. 373, Treatment and Disposal Equipment.

In its rate application, Prairie eliminated December 1983 book depreciation of \$3,970 for rate-making purposes. Therefore, the Commission is of the opinion that adjusted depreciation expense for the test period is \$1,262⁵ for rate-making purposes.

Income Taxes

Prairie projected pro forma federal and state corporate income taxes, and Jefferson County 2.2 percent occupational tax totalling \$1,264 for the test period. The Commission is of the opinion that the federal and state corporate income taxes, and the Jefferson County 2.2 percent occupational tax should be allowed

⁵ Computation of Depreciation Expense:

Depreciation Expense on capital items transferred from maintenance of treatment and disposal plant -
 $\$3,786 \times 33.33 \text{ percent} = \$1,262.$

for rate-making purposes and the computation will be made in a later section of this Order.

Therefore, Prairie's adjusted operations at the end of the test period are as follows:

	<u>Prairie Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$25,892	\$	\$ 25,892
Operating Expenses	<u>31,901</u>	<u>(4,984)</u>	<u>26,917</u>
Net Operating Income	<u>\$ (6,009)</u>	<u>\$ 4,984</u>	<u>\$ (1,025)</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Prairie's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Prairie to meet its operating expenses, service its debt and provide a reasonable return to its stockholders. Therefore, the Commission finds that Prairie should be permitted to increase its rate to produce annual revenue of \$31,622,⁶ which includes federal, state and Jefferson County income taxes of \$911. This results in an annual increase in revenue to Prairie of \$5,730.

SUMMARY

On January 15, 1985, Prairie submitted notice to the Commission of its intent to begin charging the rates advertised in its original application as of February 15, 1985. In a letter of

⁶ $(\$26,917 + \$911) \div 88\% = \$31,622.$

the Commission dated February 11, 1985, the effective date was recognized to be March 2, 1985. In its Order of February 28, 1985, the Commission ordered Prairie to maintain its records in such manner as would enable it, or the Commission, or any of its customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered upon final determination of this case in accordance with 807 KAR 5:076, Section 8.

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Prairie would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to charge for sewage services rendered to Prairie's customers and should produce annual revenues of approximately \$31,622.

3. The rate charged by Prairie on and after March 2, 1985, is in excess of the rate approved herein, and therefore, the difference should be refunded to the appropriate customers.

IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate of Prairie for sewage services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Prairie be and it hereby is denied.


IT IS FURTHER ORDERED that the revenues collected by Prairie subsequent to March 2, 1985, through rates in excess of those found reasonable herein shall be refunded in the first billing after the date of this Order.


IT IS FURTHER ORDERED that Prairie shall file a statement within 30 days of the date of this Order reflecting the number of customers billed, the amount collected under the rate put into effect on March 2, 1985, the number of customers receiving a refund, the amount refunded and the date of the refund.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Prairie shall file with this Commission its tariff sheets setting forth the rate approved herein and a copy of its rules and regulations for providing sewage services.

Done at Frankfort, Kentucky, this 22nd day of March, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9136 DATED 3/22/85

The following rate is prescribed for customers receiving sewer service from Prairie Facilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>Customer Class</u>	<u>Rate</u>
Residential	\$10.46